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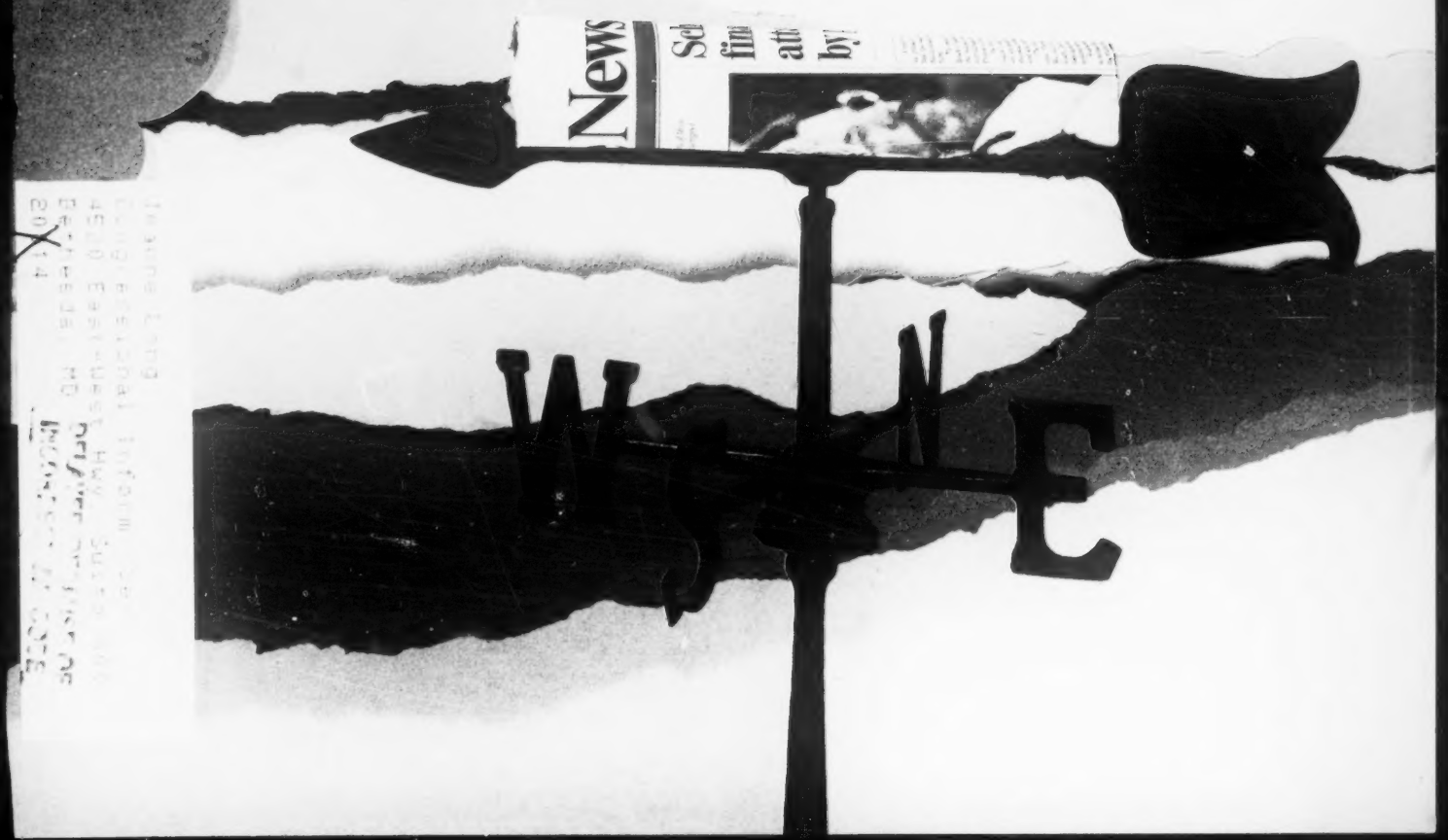
Presstime

The Journal of the American Newspaper Publishers Association

Paying For Health Care Becomes a Shared Burden

1992 Forecast For Newspapers: Overcast Early, Clearing Later



presstime

JANUARY 1992 VOLUME 14, NUMBER 1

18 Special Report *Any predictions of a recession rebound for the newspaper industry are hazy at best, but many observers believe the prospects are good for relief later this year. Even then, the recovery may be weak, and, with newspaper advertising absorbing its biggest blows in 40 years, many papers have drastically cut expenses and raised circulation prices for a revenue boost. This first annual* **presstime** *Special Report on the newspaper industry's economic health also features commentaries by four leading analysts.*

6 Health-care ills *Rising health-care prices are causing some newspapers to shift part of the burden to employees, with little outcry.*

10 Managing diversity *Publishers are seeking training to learn how to deal with their increasingly multicultural work forces and communities.*

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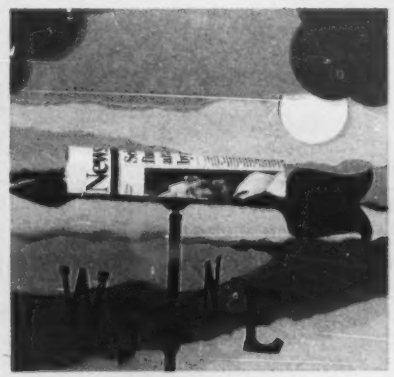

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Daniel Renero

Amid Uncertainty, Forecasters Look For Signs of Recovery

BY WALT POTTER
presstime staff writer

When will the sun of economic recovery shine through the gloom of the newspaper industry recession?

Sometime between the middle and the end of the year, according to many newspaper executives and most economists and stock analysts who follow the industry. However, an increasing number of newspaper people aren't pinning their hopes on any significant improvement until 1993.

Most prognosticators are hedging their bets about the industry's economic future. Their consensus: Any economic recovery will be weak. The most upbeat among them say the recovery may have already started last fall, but the most pessimistic are worried the economy may be heading into another recession.

Widely followed forecaster Robert J. Coen says advertisers' spending in newspapers may grow about 6 percent this year. In 1991, advertiser spending in newspapers fell about 5 percent, he says. If that figure isn't significantly revised, it would be the worst decline in percentage terms since 1942. Advertiser spending in all media fell 1.5 percent last year, the first such decline since 1961. Overall growth this year will be about 6.2 percent, Coen says.

Whether rosy or gloomy, however, the forecasters are less confident about their predictions than at any time in recent memory. Their track record since the recession started has not been good. Coen, for example, twice reduced forecasts of growth last year before conceding there was a downturn [presstime, Dec. 1991, p. 48].

"Every economist is having trouble seeing his predictions coming true," says Bruce E. Thorp, media analyst for Provident National Bank of Philadelphia. "It seems we've all put our predictions off longer and longer."

The cause of this uncertainty, says Thorp and other newspaper analysts, is that consumer behavior in this economic cycle has been very cautious, a sharp contrast to the free-spending approach of most of the 1980s. Observes John Morton, an analyst with the Lynch, Jones & Ryan securities firm in Washington, D.C., "Consumer spending is two-thirds of the economy and a whole lot of newspaper revenue; and apparently, consumer sentiment is increasingly negative."

Even the relatively optimistic Coen, senior vice president and director of forecasting for the McCann-Erickson Worldwide advertising agency in New York City, believes newspapers will "gradually and sluggishly fall back up the hill."

Whenever that economic rebound dawns, it will be a welcome break from the dark, dismal clouds of diminished profits and economic adjustment that have hung over the newspaper industry for two years now. In 1990, U.S. newspapers endured the first decline of advertiser spending in their pages since 1961. Most newspaper analysts are even surer than Coen that when all the 1991 statistics are in, they will reveal another, still deeper drop in ad spending—the first back-to-back downturn since at least the Great Depression.

The impact on industry profit levels has been severe. The average profit margin for newspaper companies has dropped by about one-third in the past four years, estimates Kenneth T. Berents, vice president/senior analyst for the Alex. Brown & Sons Inc. securities firm in Baltimore. The newspaper companies that analyst Morton follows saw their operating profits decline more than one-fourth during the first nine months of 1991, compared with the same period in 1990.

Of course, nearly all newspapers still make profits, and relatively good ones at that. Most other businesses would envy the 16 percent margin that Berents estimates the newspaper industry averaged in 1991. BusinessWeek magazine's recent study of the nation's "1,000 most valuable companies" found those firms had an average profit margin of 4.6 percent in 1990.

A recovery this year should improve newspapers' profit picture, says Berents, who is "hoping we can hit 18 percent in 1992." Morton is more conservative, predicting the newspaper companies he follows will have an average profit margin "in the 12 to

> *"Every economist is having trouble seeing his predictions come true. It seems we've put all our predictions off longer and longer."*
>
> **Bruce E. Thorp**
> **Provident National Bank**

13 percent range," up from the 10 to 11 percent those companies earned in 1991.

Even so, the outlook for newspapers is not nearly as sunny as it was during the mid-1980s when average annual margins reached 24 percent, according to Berents. Adjusting to this relative distress has led to employee layoffs unprecedented in recent history, overall belt tightening and a search for new revenues by newspapers across the country.

The situation is at least as grim in Canada. Newspapers there have been hit by a triple blow—the recession, last year's imposition of a value-added tax on goods and services, and the dampening impact of a strong Canadian currency on the country's export-driven economy, says Charles Dunbar, research manager for the Canadian Daily Newspaper Association. Canadian newspapers ended 1991 with total advertising linage down 8 percent, he says. The economy is now so moribund that he predicts any recovery this year will be no more than a weak rebound, quickly followed by another recession. "Even a dead cat will bounce the first time it hits the ground," says Dunbar.

Regardless of how well newspapers weather the recession, they all face new challenges in garnering revenue from advertising.

Their chief worry is the changing retail sector. It still delivers the largest chunk of newspaper revenues, but it is declining relative to other categories. (See chart, p. 24.) Recently the larger retail companies have been digging out from under the heavy debt many of them acquired during the corporate acquisition-mad 1980s. But they are also steering increasing portions of their ad budgets to promotion or to such newspaper rivals as direct mail.

Meanwhile, the recession has walloped classified advertising—a category newspapers have relied on more heavily since its eye-popping growth in the last decade. National advertising also continues to shrink [**presstime**, Nov. 1991, p. 8].

By contrast, circulation has recently become a faster growing income source. Industrywide, price increases boosted circulation revenue 10 percent last year, estimates Jack Butcher, vice president of The Tampa Tribune. "Newspapers have taken the tack that the reader has to pay more, (while) during the 1980s advertisers bore the brunt," he says. He expects the upward pricing trend to plateau briefly this year as newspapers try to recoup lost readers.

Newspapers have gotten additional relief from their own austerity measures—cutting back on personnel, searching everywhere for efficiencies, and bargaining successfully for low newsprint and ink prices. "Sharper-penciled newspapers have done an excellent job on controlling costs" during 1991, says Berents. "Most publicly held newspapers are not up more than 1 to 2 percent in expenses," a trend he expects to continue.

For their part, newspaper trade associations have paralleled the steps their members are taking. ANPA and NAB are both restructuring, and six sibling associations are preparing to merge with NAB in a new entity, Newspaper Marketing Inc. Such moves both cut costs and "more tightly focus on what the newspaper industry wants from us," says ANPA President and Chief Executive Officer Cathleen Black. "We're looking at what we must do and what our capabilities are with a fresher set of eyeglasses," she says.

"Newspapers have taken the tack that the reader has to pay more, (while) during the 1980s advertisers bore the brunt."

Jack Butcher
The Tampa Tribune

WHENCE THE RECOVERY? More than one-fourth of the nearly 200 newspaper publishers, general managers and ad executives who responded to the Alex. Brown Newspaper Industry Survey in October felt the recovery will be delayed until 1993—more than twice the number with that response in the firm's July poll. However, most of the respondents still believed recovery would begin in the second or third quarter of this year. Nearly nine in 10 predicted that whenever it does start, it will be weak to mild.

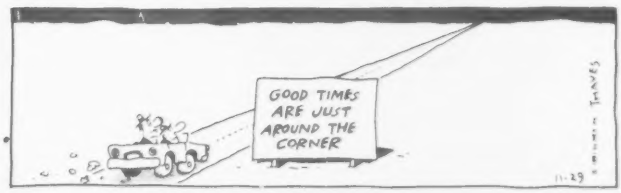
Analyst Thorp is one of those who predict a late-1992 recovery. He adds that any recovery this year will make newspaper companies' performances look good in comparison with the last two disappointing years. "I do look for a weak recovery but strong comparisons," he says.

It is difficult to predict with confidence, says Thorp, because "the consumer environment has really changed." In earlier economic cycles, individuals would take on extra debt to maintain their lifestyles, and that enabled them to keep spending and pull the economy out of rough spots. Now, however, consumers apparently have decided to reduce debt and hold back on spending.

Today's Newspaper Forecast

Alberto Pacheco

Frank & Ernest® **By Bob Thaves**



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Christine D. Urban, president of the Urban & Associates Inc. newspaper research and consulting firm in Sharon, Mass., believes this consumer caution portends a structural change in people's buying habits. People under 35 who "formed their buying habits during the go-go 1980s" now have to deal with "issues of economic mortality" for the first time, she says. (See story, facing page.)

Even in the face of this uncertainty about consumer behavior, McCann-Erickson's Coen retains his relatively positive viewpoint. When making his prediction for 6 percent growth in newspaper ad spending at December's annual PaineWebber Inc. conference on the outlook for the media, he said, "I'm more optimistic than anybody in this room, and I hope I'm right."

Although Coen is cautious about the dampening effect continued high unemployment would have on local ads, he points out that "if only half of the (local advertising) lost by many newspapers is restored, their revenues could enjoy nearly double-digit gains." In short, Coen believes things have "gotten so bad that they can't help but get better."

NAB economist Miles E. Groves reacted to that view by saying, "I would agree it's hard for it to get any worse than it is now, but looking back two years ago I never thought then that it would get this bad." Groves, vice president for operations and analysis at the bureau, says advertiser spending in U.S. newspapers was down between 5 and 7 percent in 1991. That's the worst annual decline ever recorded by NAB, which began keeping the statistics in 1948. Recovery this year will be very weak, Groves predicts, with advertiser spending up only about 2 percent over 1991.

It might be illustrative of the mood in newspaper offices these days that one of the most pessimistic outlooks at the PaineWebber conference came not from an analyst or economist, but from a newspaper executive. Jerome S. Tilis, vice president/marketing for Knight-Ridder Inc., saw ad spending in newspapers rising only between 1 and 2 percent this year, following what he calculated to be a 7 to 8 percent decline last year.

A brighter forecast comes from J. Kendrick Noble Jr., the media industry consultant and analyst who founded the PaineWebber conference 19 years ago. He joins Coen in believing the newspaper advertising recovery may have begun in late 1991. He expects newspaper advertising revenue this year to jump 6.5 percent. (See commentaries, p. 25.) Noble calculates newspaper advertising *revenue*, rather than the advertising *expenditures* that most other observers measure. The latter includes advertisers' costs to produce their ads, such as fees to advertising agencies. "There'll be a modest improvement in 1992," he says. "The recovery will be strongest in 1993."

REGIONAL REPORT. When the rays of recovery do start breaking through, they will shine with different degrees of intensity upon different parts of the country. "The fact is, newspapers don't compete in a national market. They compete in local markets," notes Gordon Medenica, vice president of corporate planning for The New York Times Co.

The Northeast, for example, will stay in recession until late 1992 and then climb slowly out of the trough, Medenica believes. At the same time, all the way across the country, at least one corner of the Pacific Northwest was never hit to begin with. Shaun O'L. Higgins, director of marketing and sales for The Spokesman-Review and Spokane Chronicle, says his newspaper's growing market in eastern Washington state "has managed to miss the recession and will continue to manage well."

Those regional differences were pointed up in the responses to two surveys by the Alex. Brown company last year. For example, in the October survey, 58 percent of newspaper executives responding from the Northeast revised their 1992 financial expectations downward from their answers to the earlier survey in July. Overall, 40 percent

New 'Barometer' May Spot Turnaround First

When recovery for the newspaper industry begins, it may first be detected by officials of the International Newspaper Financial Executives in Reston, Va., thanks to a new forecasting tool the organization has developed.

In July, INFE produced its first Newspaper Financial Barometer, a monthly yardstick of industry performance that draws on reports from individual newspapers around the country.

What makes the INFE yardstick different is how fast it's put together, usually within 20 days of when the subscribing papers complete their monthly financial compilations. The survey's every-30-days frequency is rare, too, says Jay G. Matthews, INFE special projects director.

"As far as we know, no other (such survey) is put out as quickly," says Matthews, who puts together the barometer. "So, when the turnaround starts, we believe we'll see it here first."

It's a reasonable expectation, says INFE Vice President/Executive Director Robert J. Kasabian, because it's happened before. "When the White House was saying the economy was turning around last summer," he says, "we were seeing downturns in some of the barometer's key ratios, and sure enough the economy didn't turn around."

Kasabian cautions, however, that even though the geographic and size diversity of the newspapers contributing to the survey is sufficient for an accurate look at the industry, the number of participants—30 and growing—is too few. Nonetheless, in the barometer's first five months, says Matthews, it has produced a picture of the newspaper industry that largely tracks the depiction of analysts and others who follow the business.

INFE constructs the measurement by gathering data from barometer subscribers each month. Using this information, it produces a report that examines changes in linage, revenues, days sales outstanding and other factors.

In all, the INFE barometer analyzes 30 different financial ratios and statistics, including return on assets, subscribers per employee and total benefits to total compensation.

The INFE barometer is available only to participants, who pay $125 to $175 a year for the service depending on method of delivery—mail, facsimile or diskette. More information may be obtained by calling Matthews at (703) 648-1162.

Most Problems May Be Cyclical, but the Secular Ones Are the Scariest

Is the newspaper downturn cyclical or secular? Or, more to the point, how much is due to the overall economy's downturn, how much to structural challenges confronting the industry?

Most of the executives, analysts and consultants contacted for this Special Report believe the majority of newspapers' current woes are caused by the faltering economy; that is, they are cyclical.

Nevertheless, they are also convinced that when the economy turns up again, the newspaper business will not simply return to what it was. In other words, the secular or structural changes may not be the factors making the biggest impact on the bottom line right now, but they are the ones that will have the greatest long-term impact.

Those secular changes—or modifications in the world around newspapers—include changes in society's work and leisure habits that reduce the time available for reading, a younger generation more attuned to television than to the printed word, an increase in the number and kind of media competitors, a reconfiguration of the retail business, and some shifts in the buying habits of consumers themselves.

Of these, the effect on readership has been the chief worry among newspaper executives.

And the job of staving off reader loss is getting harder. One who believes the trend is for consumers to shift from print to electronic ways of getting news and other information is Benjamin M. Compaine, a long-time consultant to the information industry. Compaine, now head of Samara Associates in Cambridge, Mass., calls the development "the new illiteracy."

If these negative trends aren't reversed, says Kenneth T. Berents, vice president/senior analyst for Alex. Brown & Sons Inc. in Baltimore, daily newspaper penetration of U.S. households will fall to 40 percent by the year 2000. It was 67.8 percent in 1990.

New competitors have also weakened newspapers' ability to hold back the decline in their share of advertising.

"The part that's not talked about a whole lot is that newspapers during the period *before* the recession were losing share," notes Christine D. Urban, president of Urban & Associates Inc. in Sharon, Mass. And more competitors are on the way. The huge regional Bell operating companies late last year were freed from court restrictions on their ability to offer information services over their own telephone lines. (See story, p. 45.)

Further, these competitors are fighting for slices of a shrinking advertising pie. Structural changes have occurred both in the way consumers buy products and in how retailers sell them, says Urban.

The young consumers whose debt-boosted spending helped to propel the economic expansion of the 1980s are "recession virgins," she says. "Now, they have to think (for the first time) about whether they'll have a job." That jolt to young consumers' confidence, combined with the debt they took on to buy "a house full of furniture, closets full of clothes . . . could mean a lengthy, slow recovery" in consumer spending, she concludes.

In the face of these changes, advertisers are also altering their spending patterns, shifting funds from advertising budgets to promotion in an effort to stimulate purchases by these increasingly cautious, time-poor consumers.

Leo Bogart, former executive vice president of the Newspaper Advertising Bureau and now adjunct professor of marketing at New York University, notes that the "rate of decline in newspapers' share of the advertising market has not matched the rather sharp decline in newspaper penetration." But he thinks advertising loss might eventually catch up if newspapers don't do something about it.

The worry over whether structural problems underlie newspapers' declining profits is widespread. A survey conducted last summer by the Alex. Brown firm found that at least two of every three of the publishers, general managers and ad directors who responded believe such structural problems exist.

However, optimism persists. Gordon Medenica, vice president of corporate planning for The New York Times Co., says the readership decline has bottomed out. He believes falling readership and advertising shares simply reflect "the typical dynamics of a mature industry. . . . We're still a huge medium. It could be 100 years before our business goes away."

Bogart also is confident that newspapers will survive. "I think what we're primarily feeling is the effect of the (overall) business picture," he says. But he quickly adds, "This is no excuse for newspapers to say, 'Oh well, we have nothing to worry about.' " —*W.P.*

of the survey's respondents had become more pessimistic.

Medenica says the financial, government and real estate sectors of the Northeast will shrink further before a recovery can begin in that region. The New England economy "is lousy," agrees Richard G. Wakefield, chief financial officer of Newspapers of New England Inc. "It's hard to see any improvement in the near term."

California, says Medenica, is another area that is suffering disproportionately, as the Golden State's huge defense-industry presence contracts.

Timing, as much as geography, has affected some newspapers' fortunes. "We went through a few real tough years in 1987 and '88," says Barry T. Peckham, vice president/controller for The Dallas Morning News. "Then, we came out of that to some extent in '89 and '90 when much of the rest of the country was moving into a real difficult period."

Conversely, Seattle eluded the recession until recently. "We had a great year in 1990," says Virgil Fassio, publisher of the Seattle Post-Intelligencer, "but in the last six months to a year we've gone down on all fronts—retail, classified, national."

And Spokane is still "playing catch-up" to the economic boom that earlier benefited such urban areas as Los Angeles and Seattle, says Higgins. "We're now seeing the retail growth most other parts of the country got during the 1980s" as retailers and services follow the people drawn to the relatively uncrowded Spokane area.

RETAIL'S ROCKY ROAD. Wherever they are, newspapers are concerned about retail advertising. Even as that traditionally largest newspaper ad category recovers, the NAB's Groves expects little more than 1 percent growth this year. That would follow an estimated 3 percent decline in retail advertising expenditures last year.

Other factors are at work here, in addition to the recession. The debt that retailers took on during the 1980s is still diverting spending from advertising to interest payments. However, the

impact of that development may be waning, says Gary L. Watson, president of Gannett Co.'s Newspaper Division. "A year ago we saw our losses among the larger advertisers as a result of the LBOs (leveraged buyouts)," he says. "The issue this year has been more softness from the medium and smaller retail advertisers." That affects newspaper economics because smaller retailers usually pay higher advertising rates. Declines in revenue per page "are a clear indication some smaller advertisers pulled back or disappeared," says Watson.

The extraordinary success of Wal-Mart Stores Inc. illustrates another problem affecting retailers. Last year, Wal-Mart became North America's biggest retailer while spending radically less on advertising than its rivals. Insofar as other retailers follow Wal-Mart's lead, newspapers will suffer.

"There are some retailers out there that have been very successful by advertising hardly at all, and Wal-Mart is the classic example," says Reggie R. Hall, executive director of the International Newspaper Advertising and Marketing Executives.

Wal-Mart, however, is beginning to spread from its rural roots into more populated markets. Late this year, it is expected to begin opening as many as 30 stores in the Chicago area and then move into other large metropolitan areas through the mid-1990s, according to ADWEEK magazine. Whether competition from the larger, established stores in these areas will make Wal-Mart advertise more frequently "remains to be seen," says Hall.

Another difficulty is that short-term profit pressures have driven retailers to shift money from newspaper advertising to promotions such as in-store ads and coupons.

The trends have combined, note newspaper statisticians, to cut advertisers' spending as a percentage of gross national product. That ratio has fallen from its 1987 high of 2.43 percent to 2.2 percent last year, says Groves of NAB. That creates "a double whammy" at a time when GNP itself is falling, Medenica notes. Further, newspapers' slice of the shrinking advertising pie has narrowed as competitors, including direct mail and cable television, have gotten stronger and more numerous.

Moreover, these factors exacerbate the impact of the economic recession, whose influence was nowhere more evident than in 1991's disappointing Christmas sales. Consumers generally kept their wallets closed, cowed both by fear of layoffs and by the heavy debt they took on during the 1980s. "There clearly is a problem with consumer confidence," says Groves. "It's very difficult to pick up even more debt when you're not sure you're going to have a job." Indeed, consumer confidence plunged late last year to the lowest level in 10 years, according to surveys.

Rodney Curtis, Concord (N.H.) Monitor

The cheery demeanor of financial officer Wakefield belies the newspaper woes in New England.

Newspapers have not been shy about raising rates, however. INAME'S Hall says 1992 newspaper retail advertising rate hikes are probably averaging 4 to 5 percent. Such increases were "probably a little less than what we were seeing in the mid-1980s," says Hall, who soon will become senior vice president, administrative services, of the new Newspaper Marketing Inc.

Adds Groves, "Among the people I've talked to, many are still trying to make their overall (revenue) objectives." The largest rate increases are coming in national advertising, while ad directors are "holding back on retail" rates, the NAB economist says.

Coen, Groves and Knight-Ridder's Tilis again disagreed on national advertiser spending in newspapers this year. Coen expects newspapers to gain 4 percent in the national category, while Groves and Tilis project a 1 percent increase. Coen says national was flat for newspapers last year, while Groves says national dipped in 1991 by 3 percent and Tilis says it was down 7 percent.

CLASSIFIED CONTORTIONS. When the recovery comes, classified advertising may bounce back more strongly than other categories. Groves is predicting a 3 to 3.5 percent increase this year, while Tilis thinks it will be 2 percent. Coen is, of course, optimistic, projecting a 10 percent increase.

Whatever the figure, it will be relative to 1991's very weak numbers; the recession has hit classified harder than any other category. Groves says classified advertising was down 5 to 6 percent in 1991 when employment, real estate and automobile sales hit the skids. Tilis says the decline was even more—13 to 14 percent.

That's a long way from the 1980s, when advertiser spending in newspaper classified pages nearly tripled to $11.9 billion while retail advertising nearly doubled to $16.5 billion.

Ronald G. Beach, classified advertising director for Knight-Ridder, says his group's classified results provide "a good snapshot of the industry," since Knight-Ridder includes major-market as well as small-market newspapers. Knight-Ridder's classified revenue was off 14.5 percent during the first 10 of last year's 12 reporting periods. Linage was down 9.3 percent.

Revenue from help-wanted classifieds in Knight-Ridder newspapers last year was down 26.2 percent, and linage was off 31.4 percent, in a category Beach says was "bleak across the country." Figures from The Conference Board support that conclusion. The New York City study group's Help-Wanted Advertising Index declined in October to a level nearly one-fourth below where it was a year earlier, and a spokesman said, "The layoff rate, which began to surge almost 13 months ago, shows no sign of running out of steam."

Knight-Ridder's 16.5 percent drop in classified revenue is a "snapshot of the industry."

Ronald G. Beach
Knight-Ridder Inc.

There may be room for even more cuts as newspapers reduce "ego circulation."

Kenneth T. Berents
Alex. Brown & Sons

Meanwhile, automotive classified linage actually grew 2.2 percent while revenue was down 4 percent. Volume discounts and "a spurt of optimism" brought on by the new car season accounted for the linage gains in automotive, says Beach. "Auto dealers like full-page ads, and you've got to discount that."

Real estate linage, the third pillar of classified advertising, was down 12.5 percent for Knight-Ridder, and revenue was down 14.1 percent. Still, real estate produced "kind of a bright picture in some respects," says Beach. "Several markets, such as in the Midwest and South, showed gains over the previous year."

Beach doesn't believe the situation will get any better this year, though. "Nothing of any significance for newspaper advertising" is on the horizon, he says. "As I see it, overall, 1992 will be a flat year. We're in a trough."

Gannett's Watson says his group's newspapers reported a similar picture, sustaining 30 to 40 percent declines in classified linage starting in late 1990. Recently, however, they're showing signs of life. "We have seen a recovery start on the classified side," says the chief of Gannett's 80 newspapers. "It's coming back about 1 percent a month."

But Beach, who also is a director and past president of the Association of Newspaper Classified Advertising Managers, says that the classified managers that he's talked to don't expect a return to the heady days of the 1980s.

REVENUE FROM READERS. With the downturn in advertising, many newspapers last year turned again to circulation for increased revenues. But while the industry's financial executives are banking that gain, circulation managers probably "will spend 1992 getting our numbers back," says The Tampa Tribune's Butcher. "There'll probably be only a 2 or 3 percent increase in revenue."

Last year's large revenue boost continued a trend. "Circulation revenue has increased dramatically over the last three to five years," says Butcher.

With these increases in revenues from readers, and the two-year drop in advertising revenues, circulation has begun to reverse the trend of the past decade by which circulation dropped from about one-third to about one-fourth of newspapers' combined revenue. Butcher notes, however, that these percentages vary by paper size; generally, the smaller the newspaper, the greater percentage of its revenue comes from circulation.

The aggressive pricing, however, contributed to a less fortunate result. Last year probably was a "loss year in terms of numbers of readers," says Butcher, who tracks circulation and readership nationally. The Audit Bureau of Circulations report for the six months ending Sept. 30 showed that significantly fewer U.S. dailies gained circulation than in previous periods, and many papers lost readers [**presstime**, Dec. 1991, p. 46].

Bruce Murray, circulation sales and administration manager for Newsday in Melville, N.Y., told the PaineWebber conference that U.S. daily circulation fell 1.5 to 2 percent last year while Sunday circulation was flat.

Both Murray and Butcher attribute the losses to price increases and the recession. Butcher notes that sales tax increases in some states also hurt, and Murray said that large newspapers were arbitrarily reducing costly circulation in distant areas. "There's a lot of evidence that major metros have decided numbers are not as important as margins," said the Newsday circulation executive.

But readership will bounce back, says Butcher, "for several reasons: Number one, our products really are not overpriced. Number two, circulation departments are a heck of a lot more professional. We've spent eight or 10 years professionalizing, and it will pay off in the 1990s. Number three, the graying of America" will mean more people will pick up newspapers more often as they age. In fact, Butcher expects a "3 to 5 percent gain" in circulation this decade.

Seattle's Fassio, for 25 years a circulation director before he rose to publisher, is less sanguine. "Teen-agers without television had to read in past years, but I don't know if becoming old suddenly makes them readers if they weren't ones in their formative years."

Despite Butcher's projected increase in newspaper sales, the Tampa executive expects newspapers' household penetration will continue to decline. "During the decade, I look for households to increase 10 to 12 percent, and thus I look for penetration to drop," he says. He predicts, however, that the decline will slow. U.S. newspaper circulation per 100 households dropped from 123.5 in 1950 to 67.8 in 1990, according to ANPA statistics.

"It's been falling about 1 percent a year," Butcher says, "but I expect it'll slow to a half percent a year" during the

Anne C. Williams, The Spokesman-Review

Blessed in 1991 by a healthy local market, The Spokesman-Review and Spokane Chronicle marketing team, led by marketing executive Higgins (center), plan for further success in '92.

1990s because of the improved performance of circulation departments and better news products from newspapers.

And Murray sees further good news—stabilization in the decline of newspaper reading frequency. The percentage of people telling surveys that they read a newspaper every day was more than 70 percent a quarter century ago, Murray told the conference, and that figure dropped to between 50 and 55 percent by 1980. "However, the decline in readership has stabilized in the 50s during the 1980s," Murray said. "That may mean the newspaper industry has found its core audience."

CONTROLLING COSTS. "If there's a silver lining" to these bad times, says The New York Times Co.'s Medenica, "it's that newspapers have been forced to think about operating efficiencies."

He and other executives expect newspapers to keep their costs in check this year. For example, labor costs—the largest component—are expected to increase only an average of 4.5 percent, says Madelyn P. Jennings, senior vice president/personnel of Gannett Co. This figure only slightly exceeds the 3.2 percent inflation rate most economists expect this year.

Much of the labor cost reductions have been achieved by cutting personnel, whether through attrition or layoffs. The number of newspaper jobs in the United States has declined by 20,300, or about 4.2 percent. It fell from an all-time high of 479,000 in June 1990 to 458,700 in October, according to the latest figures available from the Bureau of Labor Statistics. These figures do not include the additional hundreds of jobs lost with the recent closings of the Knoxville (Tenn.) Journal, the Arkansas Gazette and the Dallas Times-Herald. (See story, p. 56.) The magnitude of this reduction in employment contrasts with previous recessions, when newspaper employment remained stable.

Berents of Alex. Brown says there may be room for even more cuts as newspapers reduce "ego circulation." For instance, Fassio says the Post-Intelligencer now charges non-local readers 75 cents per newsstand copy while readers within the six counties surrounding Seattle pay 35 cents. The loss of outlying circulation that results from such pricing policies often leads to the closing of distant news bureaus, another cost savings. "This may be heresy, but (some newspapers) have very exorbitant news

Alberto Pacheco

> *"If there's a silver lining, it's that newspapers have been forced to think about operating efficiencies."*
>
> **Gordon Medenica**
> **The New York Times Co.**

budgets," says Berents. "As a percentage of revenues they are extraordinarily high."

However, many newspaper executives, and even analysts such as Morton, worry that newspapers will do themselves long-term harm by cutting too deeply into news and circulation operations. Watson points to Gannett's News 2000 project to hold old readers and attract new ones—an effort Berents praises. "We are making a very concerted effort to increase our investment in news and circulation," Watson says.

When they can, newspaper executives are also "taking advantage of attrition, rather than massive layoffs," says Jennings of Gannett. "They are looking at job recombinations. Say if someone leaves, they might divvy up that job among the remaining people."

Of course, that approach is limited by just how much the remaining employees can reasonably handle, Jennings adds, "but the problem is that newspapers are a people business. Personnel account for 50 cents of every expense dollar."

To keep from cutting into the bone of their work forces, newspaper managers are trying to maximize efficient use of their staffs. Medenica says they're trying to work smarter through better use of technology "in the whole chain of events of stories from reporter to reader—using computers in how pages are put together, managing presses, reducing waste, truck scheduling. . . . There's not a single bold stroke; there are lots of little things."

Salaries for those employees who remain at newspapers "have held up well from an employee point of view when adjusted for inflation," says Gannett's Jennings. But in the future, "raises will not necessarily run ahead of inflation." Jennings says the average newspaper wage increase was about 5 percent in 1990 and between 4.8 and 5 percent last year, compared to an estimated 3.8 percent inflation rate.

Finally, newspapers have held down expenses in another major cost component: newsprint. Lately, rampant discounting of newsprint prices has cut 30 to 40 percent from the list price, and analysts and buyers predict that newsprint companies won't raise prices for another year [**presstime**, Nov. 1991, p. 20].

"The easy cost control changes have been done," warns Medenica.

The next moves may be more painful ones, of course, but many newspapers plan to go on the offensive against the economic forces that have been battering them. One strategy will be to find new ways to build readership. In one representative comment, Gannett's Watson says, "I think some structural changes are needed. . . . Without strong readership, the rest of (newspapers' goals) will not follow."

All of these revenue-building steps are needed, publishers believe, so that whenever the economic weather improves, newspapers will be ready to make hay while the sun shines. □

The Outlook For Newspapers: Four Analysts' Views

The 'Secular Slide' Requires Evolutionary Adjustments

BY KENNETH T. BERENTS

Kenneth T. Berents

Suffering through the greatest comparative cyclical downturn in 40 years, members of the newspaper community seem to agree that the decline is exacerbated by long-term, structural changes.

For example, at this year's ANPA Convention, publishers were told they may have to "re-invent" their papers to adapt to changing advertising and readership patterns. Association leaders realize that the industry's problems are deeper than just the recessed advertising environment.

Two major groups, Gannett Co. and Knight-Ridder Inc., seemingly worried about these evolutionary rumblings, are adapting by trying to capture the "lost readers" of the Baby Boom generation. In time, other newspaper publishers should follow their lead.

I call this environment the "secular slide" because the daily newspaper industry has not gone bad; rather, it is a mature industry whose monopolistic dominance has been overcome by secular changes.

In two recent polls I conducted of approximately 1,500 top U.S. newspaper executives each, with about 200 responding to each, most indicated they agree with this assumption and plan to implement internal changes.

In the July 1991 survey, large majorities of respondents affirmed that a newspaper's biggest obstacle is competing for consumers' time with cable, TV and videotapes. Niche marketing seems to be a major trend of advertisers, who are seeking more specific, more efficient methods of reaching consumers. Another indicator from the July survey is that many newspaper executives may have taken advantage of their monopolistic positions in the 1980s by hiking rates too often, forcing advertisers to go elsewhere.

Sixty-five percent agree that most newspapers have been reluctant to adjust to societal changes. Many papers are wordy, dull entities that appeal to older readers who are not prime prospects for advertisers.

The second survey, in October, focused on solutions to these problems. Most respondents said newspapers should:

- Improve graphics.
- Become more pro-active in their communities.
- Give more care and feeding to advertisers, particularly small independent retailers.
- Cut back on expensive delivery to fringe areas.
- Sell databases.

These findings show that industry leaders are focusing on the underlying issues that seem to be sapping their ability to compete. Most publishers look forward to the future as a challenge, rather than as a foregone defeat.

Berents is vice president and senior analyst at Alex. Brown & Sons Inc., Baltimore.

Newspapers Handled Slump Well, Should See Turnaround This Year

BY JOHN S. REIDY

John S. Reidy

In 1991, historic similarities between the growth rates of the gross national product and advertising media were shattered.

While 1991's nominal GNP rose an estimated 4 to 5 percent, daily newspaper advertising dollars declined more than 7 percent. Television advertising dropped even more. The secular and cyclical causes include: consumers concerned about losing jobs, their personal debts and declining wealth; banks that refuse to lend; and corporations that remain overleveraged and are still laying off people.

Thus, near-term prospects for advertising in newspapers and other mass media are unpredictable. Newspaper executives, faced with uncertainty about what is happening to 80 percent or so of revenues, are able to influence profits only by controlling costs. Without exception, they have tightened belts in every way. They're also boosting circulation prices to enhance that small portion of revenue over which they have fairly complete control.

If one believes that newspaper advertising shall continue to decline—which we do not—then companies would have to do more cutting. Given our belief that newspaper advertising is going to turn around gradually, newspaper companies, collectively and individually, have responded appropriately to the 1990-91 advertising crash.

The decline in newspapers' local or retail advertising—typically 50 percent or more of ad dollars—is due to retail bankruptcies and consumers switching to low-price establishments like Wal-Mart. We think the newspaper industry will have "cycled through" most of this retail shrinkage by mid-1992.

The decline in classified advertising, after unprecedented growth, is almost entirely cyclical, with the greatest weakness in the recession-prone Northeast and Southern California regions. But there are recent signs of classified's stability in some depressed areas, such as Boston.

Newspaper managers have responded fairly effectively to the slump, which is nearly over. Of additional, long-term concern is the industry's weak response to telephone company threats in the aftermath of court decisions on information services. This is the critical issue for the 1990s.

Reidy is managing director for Smith Barney, Harris Upham & Co., New York City.

Circulation Price Hikes, Downsizing Could Weaken Industry in the Long Run

BY JOHN MORTON

John Morton

Used to be, when advertising went soft, all a newspaper manager had to do was jack up rates. In those happy days, advertisers had little choice but to pay up, because the local newspaper was about the only effective way to reach the market. Now a proliferation of competitors means that newspapers are stuck at rate increases around the inflation rate, unless there is an unusual increase in circulation. This change explains why newspapers have been hit so hard during the recession.

In this environment, it is difficult to develop revenue-enhancers, although some newspapers are creating new sections. Of course, circulation offers revenue opportunities, and many newspapers have risen from 25 cents daily to 35 cents or from 35 cents to 50 cents.

The 1990-91 recession—and 1992 probably will be added as well—may be remembered as the time when 50-cent newspapers became common and acceptable. The increases reduce costs by driving down circulation and newsprint consumption. Long term, though, such hikes weaken an industry already struggling with poor circulation.

One way of shoring up profits is cost containment, and drastic measures are being taken. Employee layoffs have become common in an industry that historically did not discharge people for economic reasons.

The other opportunities for cost reduction are country circulation and the news hole. Most outlying circulation is not profitable because it is not supported by local advertisers, and trimming usually does not significantly harm a paper's appeal to advertisers.

Cutting the news hole is a last resort because it undermines market position. Of all steps, this—and reducing the news staff—are most hazardous to a paper's future. Unfortunately, some choose these first.

Such downsizing may be permanent because it is unlikely newspapers will come out of this recession as strong as they came out of past slumps. Some ad losses are due to cyclical factors—perhaps two-thirds—but the rest are long-lasting structural changes in how retailers and manufacturers seek customers. This, coupled with growing competition, will mean profit margins are going to be under pressure even after recovery.

To counter these trends, most well-managed newspapers will try to sell fragmented advertising zones to smaller retailers, enlarging their franchise but raising costs.

Nevertheless, newspapers remain highly profitable by other industry standards. Our survey of companies that report newspaper finances separately from other operations indicates average operating-profit margins in the 10 to 11 percent range for the first nine months of 1991. Some are doing worse, and a few, especially in the Northeast, are losing money.

The newspaper business is weathering the recession well. But this is a new decade: Instead of being two to three times more profitable than most businesses, newspapers may be only one to two times more lucrative.

Morton is president of Morton Reseach Inc., Washington, D.C., and an analyst with Lynch, Jones & Ryan, New York City.

It's All Relative: Newspaper Advertising is Healthy By Some Standards

BY J. KENDRICK NOBLE JR.

J. Kendrick Noble Jr.

It is certainly possible to look at trends in the newspaper industry and see rigor mortis setting in. To cite a few: Household penetration has been falling for 40 years. Cyclical classified is becoming the largest advertising category, instead of stable retail. Low-margin preprints are substituting for profitable run-of-press ads. Some suspect that there are too many retailers who may be replaced by non-advertising discounters. And now we have what is described as the worst ad recession in a generation.

But the picture moderates somewhat when we take a relative view, using as our reference "Personal Consumption Expenditures," or the total expenditures of people for durables, nondurables and services.

Advertising expenditures for all media have, since 1929, never exceeded 3.56 percent of PCE, plus or minus 0.13 percent. They did, however, fall within that very high range of 3.43 to 3.69 percent in 1929-1930, 1955-1966, and 1984-1990.

(Noble uses advertiser expenditures for historical studies because that's how records have been kept. In his own projections, as in the story beginning on p. 18, he measures revenues.)

Ad expenditures have slipped from that high level recently; yet they are not in any relative trough, however sharp the recent fall has been.

Newspaper ad expenditures accounted for about 0.96 percent of PCE from 1984-1988, their largest share since 1966. In 1990, that figure still stood at 0.88 percent, despite new competition and the fact that there were 5 percent fewer newspapers. In short, the average newspaper has recently had its highest relative advertising volume in 30 years. And I don't think it will fall much further, apart from a possible renewed recession, until 1996 or later.

The principal cause of the recent weakness in all local advertising is the relative decline in the money supply, the "credit crunch," which disproportionately affects small businesses. In the 1990s, PCE will probably grow only 5.9 percent per year, versus 7.8 percent in the 1980s. Something less is probably the best we can expect for newspaper advertising.

Ultimately, the industry must raise revenues, not merely lower expenses. Growth can come by increasing circulation and revenue per reader and expanding into media areas with better growth prospects.

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